

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE DEPARTMENT OF HOUSING
AND COMMUNITY DEVELOPMENT'S
MANAGEMENT OF COMMUNITY
DEVELOPMENT CORPORATION PROJECTS**



**AUSTIN A. ANDERSEN
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 2, 2004

Stanley Jackson
Director
Department of Housing and Community Development
801 North Capitol Street, N.E.
Washington, D.C. 20002

Dear Mr. Jackson:

Enclosed is the final report summarizing the results of the Office of the Inspector General's (OIG) Audit of the Department of Housing and Community Development's (DHCD) Management of Community Development Corporation Projects (OIG No. 02-1-9DB(d)). The overall audit was requested by the Director, DHCD.

Our audit report contained six recommendations for necessary action to correct the described deficiencies. DHCD provided a response to our draft report that set forth actions taken to strengthen policies, procedures, and internal controls in the overall management of its neighborhood development projects. We find that the response and the proposed corrective actions are acceptable. DHCD's comments are incorporated where appropriate. The complete text of DHCD response is included at Exhibit C.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,

A handwritten signature in dark ink, reading "Austin A. Andersen".

Austin A. Andersen
Interim Inspector General

AAA/ej

Enclosure

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March 2, 2004
Page 3 of 3

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**AUDIT OF THE DEPARTMENT OF HOUSING
AND COMMUNITY DEVELOPMENT’S
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DEVELOPMENT CORPORATION PROJECTS**

TABLE OF CONTENTS

EXECUTIVE DIGEST.....i

INTRODUCTION

 BACKGROUND1

 OBJECTIVES, SCOPE, AND METHODOLOGY5

 OTHER MATTERS.....6

FINDING AND RECOMMENDATIONS

 FINDING 1: MONITORING PROJECT PERFORMANCE8

EXHIBITS

 EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS RESULTING
 FROM AUDIT24

 EXHIBIT B: SCHEDULE OF CDC PROJECTS REVIEWED25

 EXHIBIT C: DHCD RESPONSE TO DRAFT REPORT27

EXECUTIVE DIGEST

OVERVIEW

The District of Columbia Office of the Inspector General (OIG) has completed an audit of the Department of Housing and Community Development's (DHCD) Management of Community Development Corporation (CDC) Projects. DHCD records indicate that during the 4-year period covering fiscal years 1999 to 2002, approximately \$10 million was awarded through grants and/or loans to CDCs to undertake 17 neighborhood development projects.

This is the fourth audit report in a series of audits conducted to address DHCD's management of agency resources and monitoring of project performance. The first two reports covered DHCD's management of the HOME Investments Partnerships Act (HOME) grant funds and the Walter E. Washington Estates Community Center project, while the third report focused on drawdowns of reimbursable expenditures for grant funds provided by the U.S. Department of Housing and Urban Development (HUD). The last report will focus on DHCD's management of cash advances to the Greater Washington Urban League. The overall audit was requested by the Director, DHCD.

Our specific objectives for this segment of the overall audit were to evaluate the following: (1) project management of grant funds within DHCD and grant funds provided to CDCs and other grant subrecipients; (2) reconciliation and accounting for grant funds within DHCD; and (3) benefits and appropriate use of those funds by CDCs and other grant subrecipients. We also evaluated the internal controls associated with each objective.

We reviewed and evaluated DHCD's policies, procedures, and other management controls over the disbursement of grant funds, as well as records and documents to support project costs. We conducted interviews with DHCD officials and held discussions with employees who have duties related to the projects. We held meetings with officials at two CDCs and visited the sites of four ongoing and nine completed projects. Ten project sites, most of which were in the predevelopment stage, were not visited, and four projects had been cancelled.

Perspective

Based upon the findings of our previous audit (OIG No. 11-99CD) issued on February 22, 2000, DHCD had not been effective or efficient in carrying out its mission, and in particular, had not provided the necessary management oversight and monitoring of the CDC's project performance. We noted in that report that DHCD made payments without obtaining proper documentation of project costs and paid for "core" administrative costs of CDCs, rather than costs related to specific project activities. In addition, DHCD neither monitored its grant subrecipients, including CDCs, nor developed, documented, and implemented procedures and controls to ensure that projects were properly monitored.

During this audit, we found that current DHCD management had begun to address many of the long-standing deficiencies discussed in the previous report. For example, the

EXECUTIVE DIGEST

Neighborhood Development Assistance Program (NDAP), administered by the DHCD, Residential and Community Services Division (RCS), was redesigned to better comply with HUD regulations. Beginning in fiscal year 2002, RCS began monthly on-site monitoring of grant subrecipients and a review of accomplishment data to ensure that grant subrecipients were properly completing administrative projects. RCS also conducted formal quarterly reviews of grant subrecipients that included staff of DHCD's Office of Program Monitoring (OPM) and Office of the Comptroller (OC).

Although work remains, DHCD has made solid improvements in its management of CDC administrative projects. OPM also has made a substantial contribution in aiding DHCD to better manage CDC-funded activities.

Our reports are intended to provide insight into several aspects of DHCD's operations, with particular emphasis in this report on management's oversight and monitoring of projects undertaken by CDCs and other grant subrecipients. Our report identifies areas where DHCD needs to strengthen policies, procedures, and internal controls, especially in the overall management of neighborhood development projects. In summary, our report shows that improvements are needed in several critical areas, and that DHCD has been responsive to our call to make these improvements.

CONCLUSIONS

DHCD needs to improve its monitoring of neighborhood development projects and properly document project files. Specifically, 25 of 27 files reviewed for project status, totaling approximately \$23 million in grant funds, did not contain documentation to indicate that a site visit was made by DHCD staff to monitor the progress and performance of the grant subrecipient. As a result, the status and progress for most of the projects were not readily available, and some projects have languished even though funds have been expended. We attribute these deficiencies to a high rate of executive turnover at DHCD, insufficient management oversight of projects by DHCD's Development Finance Division (DFD) project managers, and a need for more specific project monitoring procedures for DFD.

DHCD also needs to improve its procedures over the maintenance of project files. None of the files were consistently or uniformly organized, and pertinent information had not been properly updated. The files were not centrally located and some were missing important documents. Additionally, required closeout documents for completed projects had not been included in the project files.

Finally, we found two neighborhood development projects where action is needed by DHCD to correct noted deficiencies. For the Jammin Java project, we discovered that \$240,000 in grant funds remained obligated, although the project had been cancelled. In addition, complete documentation was not available for our review regarding the project located at 1225 Fairmont Street, N.W., Washington D.C. A summary of the potential benefits resulting from this audit is shown at Exhibit A.

EXECUTIVE DIGEST

As a result of this audit, DHCD initiated actions to strengthen its policies, procedures, and internal controls in the overall management of its neighborhood development projects. In addition, DHCD plans to implement a standard management system that will be utilized to track all DHCD projects. Therefore, we do not address further recommendations to DHCD concerning those issues in this audit report. DHCD's response is incorporated in its entirety as Exhibit C of this report.

SUMMARY OF RECOMMENDATIONS

We addressed recommendations to the Director of the Department of Housing and Community Development that we believe are necessary to address the concerns described above. The recommendations focus on:

- developing, documenting, and implementing procedures and controls for the Development Finance Division to ensure that projects are routinely and continuously monitored throughout the life of a project;
- developing and implementing a computerized project tracking system that will capture and document activities and accomplishments to measure a project's progress against goals and milestones;
- obtaining and providing complete documentation to the Office of the Inspector General for the 1225 Fairmont Street, N.W. project;
- initiating de-obligation actions for the \$240,000 in CDBG funds that remain encumbered for the cancelled Jammin Java project;
- establishing and implementing procedures and controls to ensure that DHCD project managers retain documents in project files that are required to monitor and evaluate a project's performance; and
- establishing procedures and controls to ensure that DHCD project managers properly complete the document checklist form and update information in project files to include all required closeout documents for completed projects.

CORRECTIVE ACTION

On February 12, 2004, DHCD provided a written response to the recommendations in our draft report. In general, management concurred with the report and provided a listing of actions taken or planned to address each recommendation or an explanation for any disagreement. We find DHCD's response acceptable. DHCD's comments are incorporated where appropriate. The full text of DHCD's response is included at Exhibit C.

INTRODUCTION

BACKGROUND

The District of Columbia Office of the Inspector General (OIG) has completed an audit of the Department of Housing and Community Development's (DHCD) Management of Community Development Corporation Projects. This is the fourth audit report in a series of audits that will evaluate DHCD management of resources and monitoring of project performance.

Mission. DHCD's mission is to: (1) promote economic development initiatives; (2) create and maintain stable and viable mixed income neighborhoods; (3) maintain and expand the city's tax base; and (4) encourage self-sufficiency in its housing programs and policies for the benefit of District of Columbia residents by leveraging public dollars for private funding and resources. To aid in the fulfillment of its mission, DHCD uses the Community Development Block Grant (CDBG) Entitlement Program (Program). The Program, which is administered by the U.S. Department of Housing and Urban Development (HUD), provides grants of CDBG funds to housing authorities and agencies of metropolitan cities and urban counties.

The Program. CDBG funds can be used for 25 specific activities which include: (1) acquisition of real property; (2) acquisition, construction, reconstruction, or installation of public works, facilities and sites, or other improvements, including removal of architectural barriers that restrict the accessibility of elderly or severely disabled persons; (3) clearance, demolition, and removal of buildings for improvements; (4) payments to housing owners for losses of rental income incurred where housing is temporarily held for those who relocate to the area; and (5) disposition of real property acquired under the Program.

All activities undertaken must meet one of three national objectives of the Program. Activities must benefit low and moderate-income persons; eliminate slums or blight; or meet urgent community development needs. One way that DHCD implements the Program is by using Community Development Corporations (CDCs).

Community Development and Support Initiative and the CDCs. One of DHCD's major initiatives is the Community Development and Support Services Initiative. The initiative was designed to create jobs and business opportunities for District residents, as part of efforts to promote and maintain healthy and viable neighborhoods. This initiative has several benefits, including the creation of a stronger tax base, neighborhood stabilization, and the provision of greater income for citizens to afford escalating housing costs.

An important vehicle for achieving expansion and diversification of the District's economy is through increasing the capacity of the neighborhood CDCs to stimulate economic development activity in their respective service areas.

INTRODUCTION

A CDC is a community-based, nonprofit organization with the capacity to complete both neighborhood development projects (commercial and residential) and neighborhood revitalization activities, with an emphasis on job creation and retention and technical assistance to businesses. DHCD uses subgrants and loans to provide CDBG funds to CDCs to finance neighborhood development and revitalization projects.

Table I below lists 12 CDCs used by DHCD to undertake neighborhood development projects.

Table I. Schedule of Community Development Corporations¹

Acronym	Community Development Corporation	Wards Served
AEDC	Anacostia Economic Development Corporation	6
DCCH	Development Corporation of Columbia Heights	1, 2
ERCDC	East of the River Community Development Corporation	8
HSCDC	H Street Community Development Corporation	5, 6
LEDC	Latino Economic Development Corporation	1, 2
MHCDO	Marshall Heights Community Development Organization	7
NCNDC	North Capitol Neighborhood Development Corporation	1, 2
PIC	Peoples' Involvement Corporation	4
FSWSE	Far SW-SE Community Development Corporation	8
GGARC	Gateway Georgia Avenue Revitalization Corporation	4
UTCDC	Union Temple Community Development Corporation	8
WCCDC	Wheeler Creek Estates Community Development Corporation	8

The following illustration shows a recently completed CDC retail development project located at 8th and H Streets, N.E., Washington, D.C. DHCD awarded a CDC \$1 million towards the acquisition and development costs related to this project (the total development budget for this project was \$2,156,000). We noted that the construction phase for this project was approximately 6 months.

¹ Although there were other CDCs that received funding from DHCD during the period covered by our audit, DHCD provided the bulk of CDBG funds to the 12 CDCs listed above.

INTRODUCTION



CDC projects such as this one can have a positive effect on District neighborhoods. Some of the benefits that result from these projects are additional job opportunities for citizens, the elimination of neighborhood blight, and an increase in tax revenue for the District.

Residential and Community Services Division. DHCD's Residential and Community Services Division (RCS) administers the Neighborhood Development Assistance Program (NDAP), which provides impact-based funding (through subgrant agreements) to CDCs for specified services and activities in targeted neighborhoods of the District. These services and activities include: (1) commercial corridor and small business development; (2) façade improvement; (3) single-family home rehabilitation; (4) job training and employment placement; (5) youth services; and (6) predevelopment support for affordable housing.

Starting in fiscal year (FY) 2002, RCS began monthly on-site monitoring of grant subrecipients. The monthly site visits included review of accomplishment data to ensure that subrecipients were timely and properly completing administrative projects. RCS also conducted formal quarterly reviews of subrecipients, which included staff from DHCD's Office of Program Monitoring (OPM) and the Office of the Comptroller (OC). Additionally, a new version of project work plans for NDAP subgrants was initiated in FY 2003. These

INTRODUCTION

revised work plans now include specific measurable goals and objectives for each budgeted activity.

Development Finance Division. DHCD's Development Finance Division (DFD) provides funds through subgrant agreements and/or loans to assist in the construction of new housing, as well as the rehabilitation of residential property containing five or more units. In addition, DFD provides funding to assist in the construction of commercial and mixed-use developments, as well as other community and educational facilities such as day care centers and charter schools. The division also staffs the National Capital Revitalization Corporation and is responsible for the disposition of property owned by the National Capital Revitalization Corporation and the District government. Currently, DFD administers the following five programs:

- Multifamily Housing Rehabilitation Loan Program, which provides a source of low-cost interim construction financing and permanent financing for the rehabilitation of residential property containing five or more units;
- Distressed Properties Improvement Program, which provides tax relief and other financial incentives to occupied rental properties where owners are willing to make property repairs and retain lower income occupancy;
- Low Income Housing Tax Credit Program, which provides federal tax credits to developers of new or rehabilitated rental housing to produce affordable housing for low- and moderate-income persons;
- Housing Production Trust Fund Program, which provides financial assistance to nonprofit and for-profit developers for the planning and production of housing and related facilities on citywide basis;
- Housing Finance for Elderly, Dependent, and Disabled, which provides financing to private for-profit and nonprofit applicants to develop housing, including community-based residential facilities and households with special housing needs.

Prior Audit Coverage. In our previous report (OIG No. 11-99CD) issued on February 22, 2000, we noted deficiencies at DHCD in areas of monitoring project performance, accounting for administrative funding used for projects, controlling expenditures for CDBG activities, and detecting and resolving conflicts of interest by DHCD and CDC employees. We also noted that DHCD needed to improve its record retention procedures and its internal auditing functions.

INTRODUCTION

That report contained 23 recommendations, which included:

- developing, documenting, and implementing procedures and controls to ensure that projects are monitored;
- establishing procedures and controls that ensure that DHCD awards its grants and subgrants with provisions requiring CDCs and other grant and subrecipients to track administrative costs by project;
- ensuring that the CDCs and other recipients of DHCD grants or subgrants awarded in FY 2000 and subsequent years, have an adequate cost tracking or allocation process in place before paying vouchers for administrative costs;
- improving the financial disclosure process to avoid conflicts of interest; and
- improving the procedures and controls that ensure DHCD employees adhere to record keeping and retention requirements of District regulations.

During our current audit we noted that DHCD had made improvements in managing administrative projects and its financial disclosure process. DHCD also has improved its procedures for managing CDC funded activities through the OPM and the OC.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our current audit were to evaluate the following: (1) project management of grant funds within DHCD and grant funds provided to CDCs and other grant subrecipients; (2) reconciliation and accounting for those grant funds within DHCD; and (3) benefits and appropriate use of those funds by CDCs and other grant subrecipients. We also evaluated the internal controls associated with each objective.

We reviewed and analyzed project files and related records for 27 neighborhood development projects, totaling approximately \$23 million. Of the 27 projects, 17 were awarded to CDCs (totaling \$10 million) and 10 were awarded to other grant subrecipients (totaling \$13 million). These projects were under the management and oversight of DFD. Our audit focused primarily on the procedures and controls used by DFD to monitor these projects.

We also reviewed 44 subgrant agreements, totaling \$17.6 million, which were awarded by DHCD to CDCs to fund administrative costs associated with neighborhood development projects. These funds were also given to CDCs to provide a wide range of technical assistance to businesses located in its target area including, but not limited to, loan

INTRODUCTION

packaging, financial management planning, cash management, business plan preparation, and tax planning. RCS managed these projects.

The review included an analysis of subgrant agreements, loan documents, project files, commitment letters, project management information, disbursement vouchers with supporting documentation, and other related documents.

To accomplish our objectives, we held discussions with DHCD's management and administrative staff to gain a general understanding of the policies, procedures, and other controls used by DHCD to monitor projects of CDCs and other grant subrecipients. We held meetings with officials at two CDCs and visited the sites of four ongoing and nine completed projects. Ten project sites, most of which were in the predevelopment stage, were not visited, and four projects had been cancelled.

We relied on computer-processed data from the District of Columbia System of Accounting and Reporting to provide us with a detailed transaction of DHCD cash disbursements for grant agreements and loans for the 27 projects we selected for review. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the cash disbursement amounts reviewed by us generally agreed with the information in the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the audit objective or that would change the conclusions in this report.

Overall, the audit covered the period FY 1999 through FY 2002, was conducted in accordance with generally accepted government auditing standards, and included such tests as we considered necessary under the circumstances.

OTHER MATTERS

These issues represent matters that came to our attention during the audit. The issues were not fully reviewed but are provided for the information and use of District officials.

Conflict of Interest. In our previous audit of DHCD, we recommended that DHCD improve its process for detecting and resolving conflicts of interest at CDCs to ensure that recipients of CDBG funds comply with the conflict of interest requirements set forth in 24 CFR § 570.611.

During our current audit, we were informed by DHCD staff that corrective action was taken after discovering that two CDCs had not fully complied with the conflict of interest requirements. However, we visited two different CDCs and noted that one had not established formal conflict of interest policies or procedures. The second CDC visited had policies and procedures, but some of the board members had not signed their conflict of

INTRODUCTION

interest statements. Additionally, the Controller at the second CDC visited could not provide us with signed conflict of interest statements for its employees.

DHCD officials informed us that they intend to make conflict of interest policies and procedures a required deliverable in subgrant agreements. DHCD should also review the conflict of interest requirements at each CDC to ensure their compliance with the regulations.

Project Selection Process. The process used by DHCD to award projects needs improvement. Specifically, our review of the selection process revealed that projects were awarded without fully documenting the rationale for the final selection of an applicant. Although DHCD issues a Request for Proposal that contains the technical criteria used to evaluate prospective applicants, the rationale for the final selection should be documented and included in the project files.

Advances of Federal Grant Funds. Title 24 CFR § 85.21 provides DHCD with the authority to advance grant funds to subrecipients to undertake economic development activities. The regulation stipulates that the subrecipients should minimize the time between the receipt of funds and their disbursement. (See 24 CFR § 85.21 (c).) However, our current audit disclosed several instances where DHCD advanced funds to a grant subrecipient that, in our opinion, did not disburse the funds in a timely manner.

DHCD should limit its use of advances of federal grant funds to grant subrecipients and increase its monitoring activities in cases where an advance may be warranted. This matter is discussed in more detail in OIG Report No. 02-1-9DB(g), Audit of the Department of Housing and Community Development's Management of the Walter E. Washington Estates Community Center Project.

Use of Agency Resources. During our current audit, we noted that DHCD had purchased a computerized grant management system software package, called Housing and Development Software (HDS), to aid in the overall management and accounting of federal grant funds. Although staff of DHCD had been trained in the use of the software, very few employees were using the new software package to track grant activities. DHCD officials informed us that, due to a high turnover of staff, they needed to train new employees on HDS's capabilities. We believe that HDS should be fully utilized by employees, which ultimately will aid DHCD in its management of federal grant funds.

FINDING AND RECOMMENDATIONS

FINDING 1: MONITORING PROJECT PERFORMANCE

SYNOPSIS

DHCD needs to improve its monitoring of neighborhood development projects and properly document project files. Specifically, 25 of 27 files reviewed for project status, totaling approximately \$23 million, did not contain documentation to indicate that a site visit was made by DHCD staff to monitor the progress and performance of the grant subrecipient. As a result, status and progress information for most of the projects was not readily available, and some projects have languished even though funds have been expended. We attribute these deficiencies to a high rate of executive turnover at DHCD, insufficient management oversight of projects by DHCD's Development Finance Division (DFD) project managers, and a need for more specific project monitoring procedures for DFD.

DHCD also needs to improve its procedures for the maintenance of project files. None of the files were consistently or uniformly organized, and pertinent information had not been properly updated. Further, the files were not centrally located and some were missing important documents. For example, required closeout documents for completed projects had not been included in the project files.

Finally, we found two neighborhood development projects where action is needed by DHCD to correct noted deficiencies. For the Jammin Java project, we discovered that \$240,000 in grant funds remained obligated, although the project had been cancelled. In addition, complete documentation was not available for our review for the project located at 1225 Fairmont Street, N.W., Washington D.C.

DISCUSSION

Federal regulations provide guidance for the management and administration of grant funds used by participating jurisdictions. The applicable regulations for this audit are found at 24 C.F.R. §§ 85.1 – 85.22, 85.40, 92.1 – 92.552, 570 – 570.913 (2003).

DHCD procedures for managing and providing oversight of organizations funded by the CDBG program are contained in DHCD's Community Development Block Grant Subrecipient Management and Oversight Procedures, effective May 1999. Relevant federal regulations and DHCD procedures are discussed in greater detail in the following paragraphs.

Federal Regulations and DHCD Procedures Concerning Grant Agreements and the CDBG Program. Title 24 CFR Section 85.40(a) provides that “[g]rantees [such as DHCD] are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure

FINDING AND RECOMMENDATIONS

compliance with applicable [f]ederal requirements and that performance goals are being achieved.” *Id.* Similarly, 24 CFR Section 570.501(b) states that a grantee is responsible for administering a CDBG grant to ensure “that CDBG funds are used in accordance with all program requirements. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements . . . and for taking appropriate action when performance problems arise” *Id.* DHCD’s Community Development Block Grant Subrecipient Management and Oversight Procedures, Section 5, Part A requires DHCD to monitor subrecipient activities to ensure that the subrecipient is carrying out the CDBG funded activities outlined in its application and written agreement; carrying out its activities in a timely manner; charging costs to the project that are eligible and reasonable; and able to continue to carry out approved activities.

DFD Monitoring Reports. Only 2 of the 27 DFD project files contained documentation to indicate that a site visit was made by DHCD staff to monitor the progress and performance of the grant subrecipient. The lack of project monitoring is attributed to the high rate of executive turnover at DHCD over the past 10 years, as well as insufficient project management oversight. DHCD also had a need for more specific procedures for monitoring DFD projects.

When questioned, DHCD officials told us that all construction and rehabilitation projects are monitored; however, upon request, DFD could only provide us with monitoring reports for two projects. In our opinion, DHCD should monitor all of its projects (not just construction and rehabilitation) and include documentation of such in the project file. Effective monitoring of projects ensures that grant subrecipients are performing tasks in a timely and proper manner, and that grant funds are being used for intended purposes.

OIG Site Visits. Due to the lack of monitoring reports in the project files, we conducted site visits to 13 of the projects selected for review. Our visits to the 13 sites revealed that 3 projects, which had been funded by DHCD for periods ranging from 1 to 5 years, showed little or no visible signs of progress since the date of grant award (or loan). The remaining ten projects appeared to have visible signs of progress.

FINDING AND RECOMMENDATIONS

Walter Washington Community Center



The picture above was taken during our site visit on March 18, 2003, to the Community Center construction site, located at Ninth Street and Southern Avenue, S.E., Washington, D.C. DHCD funded this project with a subgrant for \$1.8 million that was awarded in May 2002 to a CDC. The project envisioned construction of a community center, a tennis court, and a guardhouse. At the time of our visit, less than one year after grant award, \$1.3 million in grant funds had already been expended; however, as the above photograph reveals, minimal progress had been made at the site, and there were no apparent construction activities taking place at the time.

DHCD officials told us that although construction had not yet started, predevelopment activities were in progress. We were also told that several on-site visits had been made by DFD staff, prior to the disbursement of grant funds for project costs. However, on the date of our site visit, DHCD officials could not provide us with specific details as to what construction activities had been completed using the \$1.3 million in grant funds. DHCD also could not provide documentation to verify their site visits.

FINDING AND RECOMMENDATIONS

For a complete discussion on this matter, see OIG Audit of the Department of Housing and Community Development's Management of the Walter E. Washington Estates Community Center Project (OIG No. 02-1-9DB(g)).

1474 Chapin Street, N.W., Washington, D.C.



Located in the Northwest quadrant of the District, DHCD funded this project with a subgrant in the amount of \$798,537 that was awarded in May 2002. The project also received administrative funding (approximately \$74,000) for FYs 1998 through 1999. Available estimates showed that the project would cost a total of \$1.9 million. The project entails acquiring and renovating this apartment building.

A project schedule, dated December 4, 2000, indicated that the project was to be completed in 12 months. However, as indicated by the above photograph taken during our site visit on July 14, 2003, the project shows little progress. The delay is compounded by the fact that DHCD started funding this project in 1998.

FINDING AND RECOMMENDATIONS

DHCD officials informed us that this project was included in the bundle of projects administered by the District's Housing Finance Agency. These officials also informed us that the project would be completed by the latter part of calendar year 2003.

Fairmont Square, 1225 Fairmont Street, N.W., Washington, D.C.



DHCD funded this project with a subgrant in the amount of \$550,000 that was awarded in December 2001 to a CDC. The project entails acquisition of the existing three-story structure as part of a phased development project that will subsequently rehabilitate the structure into a nine-unit cooperative building for low- to moderate-income residents. The above picture was taken during our site visit on July 14, 2003.

During our inspection of the property, we noted broken windows, a chain lock on the entrance gate, and that the building appeared not to be fully utilized. We questioned DHCD officials regarding these deficiencies and the amount of progress completed toward correcting them.

DHCD officials could not provide us with an adequate explanation for the deficiencies, and informed us that this project was complete. However, we disagree based upon provisions of the grant agreement, our site visit, and a memorandum dated January 28, 2003, indicating

FINDING AND RECOMMENDATIONS

that the CDC requested a 7-month extension to allow for the completion of construction drawings for the rehabilitation of the property and to finalize permanent financing.

Furthermore, DHCD officials told us that the project file was incomplete and that some documents were missing. We noted that the project file did not contain evaluation documentation, such as an appraisal of the property, a project budget, or a project completion schedule. DHCD needs to obtain all relevant documents for the project file.

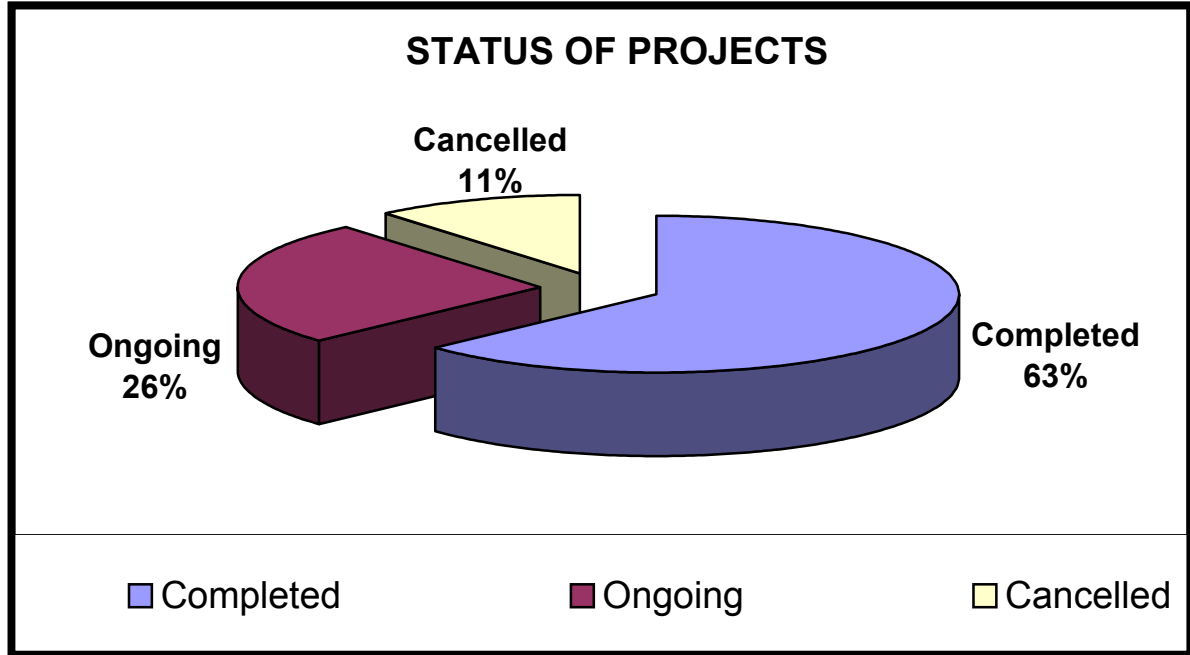
Status of Projects. We requested DHCD to provide us with grant agreements, project files, related financial records, and the current status for the 27 projects selected for our review. Of the 27 projects, 17 were awarded to CDCs and the remaining 10 to other grant subrecipients. All of the projects had been funded totally, or partially, by DHCD during FYs 1999 to 2002. Based upon our request and a review of the information provided to us, we found that DHCD could not readily determine the current status of some of its projects.

Further, some of the information provided was not accurate. For example, a manually-prepared schedule that listed information such as the amount awarded for a project, date of the award, current status of the project, etc., reported a DFD project as completed, even though our site visits determined that the project was actually still ongoing.

We also noted that four subgrant agreement amounts listed on the schedule were incorrect. Therefore, we requested DHCD to certify the listing of 27 projects selected for our review for accuracy. After repeated requests, DHCD provided us with a certified listing approximately 1 month after our initial request. Although the list was certified by a DHCD official, it still contained errors. For example, we noted that two projects shown as closed/completed were actually cancelled.

Based upon the certified listing, 63 percent of the projects had been completed, 26 percent were ongoing, and 11 percent had been cancelled. The following pie chart illustrates this information. In our opinion, DHCD should establish a system using a computerized database to capture and accurately record project information.

FINDING AND RECOMMENDATIONS



Status of Projects	Amount	Number	% of Total \$	% of Total Projects
Completed	\$9,111,695	17	39	63
Ongoing	\$12,255,537	7	54	26
Cancelled	\$1,714,992	3	7	11
Total	\$23,082,224	27	100	100

Ongoing Projects. The seven ongoing projects involve construction or rehabilitation, and have been ongoing for approximately 1 to 4 years. We believe that the periodic monitoring of these projects would aid in their timely completion. Table II below provides information on the seven ongoing projects.

FINDING AND RECOMMENDATIONS

Table II. Schedule of Ongoing Projects

No.	Project Name and Location	Date of Award or Loan	Amount	Days Ongoing (as of 6/30/03)	Project Type
1	Henson Ridge (Frederick Douglass) HOPE VI	05/31/02	\$8,000,000	395	Construction Assistance
2	Washington View Apartments/ 2601 Douglas Street, S.E.	11/16/99	\$350,000	1322	Construction Assistance
3	Mt. Pleasant store front façade, Mt. Pleasant & 16 th Streets, N.W.	12/23/98	\$90,000	1650	Construction Assistance
4	8th & H Streets, N.E. Retail Development	07/26/02	\$1,000,000	339	Construction Assistance
5	Walter Washington Community Ctr., 828 Bellevue Circle	05/22/02	\$1,837,000	404	Construction Assistance
6	U Street Façade Grant Program	12/04/98	\$180,000	1669	Construction Assistance
7	1474 Chapin Street, N.W.	05/31/02	\$798,537	451	Rehabilitation
	Total		\$12,255,537		

FINDING AND RECOMMENDATIONS

Review of Cancelled Projects. During the period covered by our audit, four projects partially funded by DHCD had been cancelled. These projects are briefly discussed below.

Gage School. DHCD provided a \$290,000 loan to a CDC on March 12, 1997, toward the costs of constructing a 62-unit facility for senior citizens located at 2035 2nd Street, N.W., Washington, D.C. The project was cancelled because the CDC was unable to obtain the additional amount of financing necessary to complete the project. The CDC subsequently repaid DHCD the full amount of the loan on March 14, 2002.

Jammin Java. On June 24, 1999, DHCD approved funding to a subrecipient for the rehabilitation of a property located at 1533 Ninth Street, N.W., Washington, D.C., to be used as a recreational facility for youth in the community. The total amount to be provided by DHCD was \$340,000. After DHCD provided an advance of \$100,000 to the subrecipient, DHCD determined that the subrecipient could not obtain additional funds from other sources necessary to complete the project; therefore, the project was terminated. The subrecipient subsequently repaid DHCD \$97,000 in June 2002.

A review of financial records showed that DHCD had not de-obligated the remaining \$240,000 of project funds, although the project had been terminated. We brought this matter to the attention of the DHCD Comptroller.

People's Extended Healthcare Center. DHCD provided a loan of \$334,000 to a CDC on November 12, 1998, toward the pre-development costs associated with the construction of an extended health care facility, located on 1800 7th Street, N.W., Washington, D.C. During our site visits, we discovered that the project had been discontinued. The CDC subsequently repaid the loan to DHCD in March 2002.

People's Day Care Center. The Assistant Corporation Counsel assigned to DHCD, informed us that DHCD approved funding for the construction of a 24-hour day care facility located at 1849-50 T Street, N.W., Washington, D.C. The total projected cost for the facility was \$300,000. After disbursing \$88,000, DHCD determined that the CDC could not obtain additional financing to complete the project. The project was terminated on or about March 14, 2002. DHCD did not provide us with a project file for this project.

FINDING AND RECOMMENDATIONS

File and Records Maintenance. In one of our previous audits, we noted deficiencies at DHCD in the maintenance and retention of records, including project files (See OIG Report No.11-99 CD). Although many of the conditions noted in our previous audit have improved, DHCD still needs to make additional improvements in the maintenance of project files. In our current audit, we noted that:

1. Project files were not organized. DFD project files did not have information or documents presented in a uniform or standardized manner. The files were not indexed and did not contain a table of contents.
2. Project files were incomplete. Some of the files were missing required documents (such as grant agreements, loan documents, project schedules, etc.). On several occasions, we requested additional documents that were missing from the project files.
3. Project files needed to be updated. We could not readily determine the current status of projects. For most of the files, information had not been updated for several months and, in some instances, years. Most of the project files for completed projects did not have the required closeout documents, in accordance with grant regulations.
4. Project files were not centrally located. Project files were located and maintained at the desks of the DHCD project managers, which caused delays in locating project files for our review, especially in instances where the project managers had left DHCD or were otherwise not available.

We judgmentally selected 13 project files for testing to ascertain the extent to which project files were organized. Specifically, we tested the files to determine: (1) whether a document checklist form was used; (2) the completion date for the projects; and (3) whether required closeout documents were prepared in accordance with provisions of the grant agreements.

Table III provides information on the results of the 13 project files reviewed.

FINDING AND RECOMMENDATIONS

Table III. Schedule of Project Documentation Status							
No.	Project or Grant Number	Date of Award or Loan	Project Name/Address	Amount	Document checklist	Project Completion Date	Required Closeout Documents
1	2000-19	05/22/02	Walter Washington Community Ctr., 828 Bellevue Circle	\$1,837,000	I	Ongoing	Ongoing
2	2001-65	12/22/01	1440 Columbia Road, N.W.	\$560,000	I	U	N
3	2001-64	12/22/01	1438 Columbia Road, N.W.	\$536,000	I	U	N
4	2001-55	12/21/01	Fairmont Square, 1225 Fairmont Street, N.W.	\$550,000	I	U	N
5	98-74	03/16/99	Bell Multicultural School Area Study	\$130,000	I	U	N
6	98-57	06/07/99	Chaplin Woods Townhomes	\$275,000	I	06/15/00	N
7	2002-35	07/16/02	5401-5407 9th Street, N.W.	\$470,000	I	U	N
8	2002-02	05/31/02	1474 Chapin Street, N.W.	\$798,537	I	Ongoing	Ongoing
9	2002-40	04/30/02	Camp Simms	\$590,000	I	Ongoing	Ongoing
10	Not available	11/16/99	Latin American Youth Ctr., 1419 Columbia Road, N.W.	\$250,000	I	U	N
11	Not available	03/15/99	1000 U Street, N.W.	\$300,000	I	08/09/02	Yes
12	99-22	07/16/99	216 New York and 1151 New Jersey Avenues, N.W. (Augusta Louisa)	\$900,000	I	U	N
13	2001-63	12/27/01	800 Southern Avenue, S.E.	\$950,000	I	9/23/2002	N
	TOTAL			\$8,146,537			

Legend

I Incomplete - Document checklist was not completed.
 U Undetermined - Project completion date could not be determined.
 N Required closeout document not included in the project file.

FINDING AND RECOMMENDATIONS

- **Document Checklist.** The document checklist is the current form used by DHCD that lists necessary documents to be included in project files, such as executed grant agreements, tax certification documents, evidence of other funding, wage determinations, etc. None of the 13 project files had completed document checklists, although all of the files contained the form.
- **Project Completion Date.** Only 3 of 13 files (23 percent) contained information pertaining to the project completion date. We could not determine the project completion date for 7 of 13 projects, but only 3 projects were still ongoing.
- **Required Closeout Documents.** The grant agreement “closeout provision” requires the grantee to submit statements of incurred expenses, including documentation to verify expenses. Also required is an executed DHCD Contractor’s Certificate and Release Form. Only 1 of 13 files (8 percent) contained the required documents. The required documents were not included in 9 of 13 files, but only 3 projects were still ongoing.

OPM Audit of DFD Construction Assistance Program. OPM provided us with a copy of its “Report on Monitoring Review of DHCD Development Finance Division Construction Assistance Program,” dated June 2002. The report discussed six findings that were noted during the review. Those findings included a lack of proper documentation in project files, insufficient project management, and lack of written evidence in project files to show that projects were monitored.

OPM also noted that DFD had not yet developed a comprehensive policy and procedures manual to ensure consistency in project management, and that DFD did not obtain audit reports from grant subrecipients as required by Office of Management and Budget (OMB) Circular No. A-133, Audits of States, Local Governments, and Nonprofit Organizations. During our current audit, we noted that most of these findings still exist and that little corrective action has been taken by DFD since OPM’s report was issued.

FINDING AND RECOMMENDATIONS

We recommended that the Director, Department of Housing and Community Development:

RECOMMENDATION 1

Develop, document, and implement procedures and controls for the Development Finance Division to ensure that projects are routinely and continuously monitored throughout the life of a project.

DHCD RESPONSE

DHCD agreed with the recommendation and has prepared a draft of its monitoring procedures and controls. DHCD's Development Finance Division plans to review and revise the draft procedures and finalize them by August 2004.

OIG COMMENT

We consider DHCD's actions to be responsive and meet the intent of the recommendation.

RECOMMENDATION 2

Develop and implement a standard project tracking system that will capture and document activities and accomplishments to measure a project's progress against goals and milestones.

DHCD RESPONSE

DHCD currently uses the Housing Development Software (HDS) for tracking project information; however, the available module is primarily a fund management system used to assist in the input of data for the U.S. Department of Housing and Urban Development (HUD) Integrated Disbursement and Information System (IDIS). While the software has the capability to record and track project activities, these modules have not been fully integrated into the current system configuration or the workflow of DFD staff. DHCD has modified the contract of the software contractor to address these concerns and improve the functionality of the HDS system. DHCD initiated the HDS discussion with the contractor during the DC OIG audit period, and held its kick-off meeting with the contractor on February 2, 2004 to finalize the work plan for the revisions and updates to HDS.

OIG COMMENT

We consider DHCD's planned actions to be responsive and should correct the conditions noted.

FINDING AND RECOMMENDATIONS

RECOMMENDATION 3

Obtain and provide complete documentation to the Office of the Inspector General for the 1225 Fairmont Street, N.W., project.

DHCD RESPONSE

DHCD disagreed with the finding and recommendation regarding the 1225 Fairmont Street, NW project. DHCD expended federal funds on this project for the sole purpose of assisting a community development corporation (CDC) with the acquisition of the foreclosed HUD Section 236, nine-unit building. The CDC used the funds to purchase the building and to perform the emergency maintenance work required by HUD before it would allow the purchase to be completed. Therefore, DHCD officials were not in error in their assertions that the project had been completed, because the activity for which the fund were expended – i.e., acquisition – was in fact complete when the CDC went to closing on the building.

DHCD's acquisition loan was not contingent upon nor specifically related to the subsequent rehabilitation of the building, except for the emergency repairs required by HUD for the acquisition. The CDC intends to finance the rehabilitation of the building, through other funding sources. At the request of the CDC, DHCD has deferred repayment of the loan pending the CDC's completion of its financing activities for rehabilitation.

DHCD refutes the OIG report statement that the project file was incomplete because it did not contain an appraisal. DFD informed the DC OIG auditors that an appraisal was not required for the purchase of this site because it was a HUD foreclosure and the sale price is set by HUD. However, DFD did obtain and provide the appraisal to the DC OIG through the Deputy Director for the Office of Program Monitoring.

OIG COMMENT

DHCD's comments are noted. Our conclusion that the project was not complete, was based on the following:

1. A site visit made on July 14, 2003, which showed that the building needed repairs and the property had not been completely rehabilitated.
2. A memorandum dated January 28, 2003, indicating that the CDC requested a 7-month extension to allow for the completion of construction drawings for the rehabilitation of the property and to finalize permanent financing

FINDING AND RECOMMENDATIONS

3. Page 1, Paragraph 3 of Loan Agreement No. DHCD-01-55, states “funds to be used specifically for the acquisition of an existing three story structure located at 1225 Fairmont Street, N.W., Washington D.C., as part of a phased development project that will subsequently rehabilitate the structure into a nine unit cooperative building for low to moderate income residence [sic]”.

Furthermore, during the course of our audit DHCD personnel informed us that the project file was incomplete and that some documents were missing. After our review of the project file, we noted that the file did not contain pertinent documents such as an appraisal of the property, a project budget, or a project completion schedule. After the completion of our field work (on October 22, 2003), DHCD’s Deputy Director for the Office of Program Monitoring provided us with the appraisal for the property.

Since the appraisal could be viewed as the most pertinent document, we consider this matter resolved.

RECOMMENDATION 4

Initiate de-obligation actions for the \$240,000 in CDBG funds that remain encumbered for the terminated Jammin Java project.

DHCD RESPONSE

DHCD agrees with this recommendation and is currently working with the Office of the Chief Financial Officer to de-obligate the remaining \$240,000 on the purchase order in the District’s System of Accounting and Reporting.

OIG COMMENT

We consider DHCD’s planned actions to be responsive to the recommendation.

RECOMMENDATION 5

Establish procedures and controls to ensure that DHCD project managers retain documents in project files that are required to monitor and evaluate a project’s performance.

DHCD RESPONSE

DHCD contends that it does maintain and have in place procedures and controls for the monitoring of project performance. As indicated earlier, DHCD has procedures and controls that require project managers to retain documents in project files which facilitate the three

FINDING AND RECOMMENDATIONS

types of monitoring. DHCD project managers are required to maintain the site visit reports, which result from the construction disbursement monitoring and documents the evaluation of project performance.

The current monitoring procedures will be augmented with the use of the improvements that will be made to the HDS system by recording and tracking project progress.

OIG COMMENT

We consider DHCD's planned actions to be responsive and meet the intent of the recommendation. See DHCD's response to Recommendation 1.

RECOMMENDATION 6

Establish procedures and controls to ensure that DHCD project managers properly complete the document checklist form and update information in project files, to include all required closeout documents.

DHCD RESPONSE

DHCD disagrees with the statement that project files were not organized, were incomplete and needed to be updated. This conclusion was based on a review of the project manager's files, which only contained documents relating to the review and underwriting phase of the development projects.

DHCD does recognize the concerns expressed by the DC OIG, and will implement policies and procedures to ensure that project files are complete, up-to-date, and include the required close-out documents.

OIG COMMENT

Although DHCD disagrees with our conclusions that project files were not organized, were incomplete and not up-to-date, DHCD recognizes our concerns and will implement policies and procedures relative to project file maintenance. Therefore, we considered DHCD's planned actions to be responsive and meet the intent of the recommendation.

EXHIBIT A - SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation	Description of Benefit	Amount and Type of Benefit
1	Compliance and Internal Control. Develop and implement policies and procedures for monitoring projects.	Nonmonetary
2	Economy and Efficiency. Develop a tracking system to capture and measure project progress against goals and milestones.	Nonmonetary
3	Compliance. Obtain missing documentation for the 1225 Fairmont Street, N.W. project and ensure that project file is complete.	Nonmonetary
4	Economy and Efficiency. Initiate de-obligation of funds and put funds to better use.	\$240,000 of CDBG funds put to better use
5	Compliance and Internal Control. Establish procedures to ensure that project managers document monitoring and evaluation of project performance.	Nonmonetary
6	Compliance and Internal Control. Establish procedures and controls to ensure that project managers complete the document checklist forms and update information in project files.	Nonmonetary

EXHIBIT B – SCHEDULE OF CDC PROJECTS REVIEWED

CDC	No.	Project Name/Address	Project Description	Award Amount
DCCH ²	1	1429 Girard Street, N.W.	Construction of 20 housing units	\$993,695
	2	1440 Columbia Road	Acquisition of property for benefit of tenants of the property	\$560,000
	3	1438 Columbia Road	Acquisition of property for benefit of tenants of the property	\$536,000
	4	Fairmont Square, 1225 Fairmont Street, N.W.	Construction rehab of 9-unit co-op	\$550,000
ERCDC ³	5	Washington View Apartments/ 2601 Douglas Street S.E.	Predevelopment assistance associated with rehab and construction	\$350,000
FSWSE ⁴	6	Atlantic Theater, 21 Atlantic Street, S.W. – Acquisition	Predevelopment assistance associated with acquisition and rehab	\$445,000
HSCDC ⁵	7	Douglas Townhomes, 910 10th Street, N.E.	Predevelopment assistance associated with construction of 10 townhomes	\$137,000
	8	8th & H Street N.E. Retail Development	Acquisition and construction of retail space on H Street	\$1,000,000
	9	4th Street/Rhode Island Ave. (2313-2321 9th Street)	Predevelopment and development assistance	\$100,000
LEDC ⁶	10	Mt. Pleasant store front façade, Mt. Pleasant Street & 16th Street, N.W.	Renovation of existing commercial store fronts on Mt. Pleasant Street	\$90,000
	11	Bell Multicultural School Area Study	Study of Bell School's space needs	\$130,000
Manna	12	U Street Façade Grant Program	Construction management of 34 commercial store fronts	\$180,000
Manna/ MHCDO ⁷	13	Chaplin Woods Townhomes	Construction of 5 townhomes	\$275,000
PIC ⁸	14	PIC Healthcare Facility/ 1800 7th Street, N.W. between S & T Streets	Predevelopment assistance associated with healthcare facility	\$334,992
	15	Rittenhouse Street & Georgia Avenue, N.W. (HOME)	Construction of 17 condominiums	\$975,000
	16	Gage School (HOME)	Predevelopment assistance	\$1,040,000

² Development Corporation of Columbia Heights

³ East of the River Community Development Corporation

⁴ Far SW-SE Community Development Corporation

⁵ H Street Community Development Corporation

⁶ Latino Economic Development Corporation

⁷ Marshall Heights Community Development Organization

⁸ Peoples' Involvement Corporation

EXHIBIT B – SCHEDULE OF CDC PROJECTS REVIEWED

CDC	No.	Project Name/Address	Project Description	Award Amount
UTCDC ⁹	17	Walter Washington Community Center, 828 Bellevue Circle	Construction of community center at Walter E. Washington Estates	\$1,837,000
TOTAL				\$9,533,687

⁹ Union Temple Community Development Corporation

EXHIBIT C – DHCD RESPONSE TO DRAFT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT



Office of the Director

February 12, 2004

Mr. Charles Maddox
Inspector General
Office of the Inspector General
717 14th Street, NW
Washington, DC 20005

Dear Mr. Maddox:

I am in receipt of the DC Office of Inspector General's (DC OIG) draft report entitled "Audit of the Department of Housing and Community Development's Management of Community Development Corporation Projects" dated December 22, 2003. As requested, the Department of Housing and Community Development (DHCD) is providing a response to the findings and recommendations as follows:

The DC OIG recommended that DHCD develop, document, and implement procedures and controls for the Development Finance Division (DFD) to ensure that projects are routinely and continuously monitored through the life of a project.

DHCD agrees with the recommendation, and as discussed with the DC OIG has implemented monitoring controls and procedures. In fact, DFD submitted a draft of its monitoring protocols to the DC OIG on March 4, 2003 (See Enclosure 1). While these procedures and policies were drafts, DFD has implemented the changes included in these drafts in its monitoring activities. With the experience of these changes DFD is prepared to review and revise the procedures submitted to the DC OIG and finalize them by August 2004.

Summary of Monitoring Activities: As discussed with the DC OIG, DFD's monitoring controls and procedures can be categorized into three types of monitoring activities: 1) compliance with basic funding requirements, 2) construction disbursement monitoring, and 3) operational monitoring of an individual project's compliance with long-term funding mandates.

The development, implementation, and documentation for monitoring a project's compliance with basic funding and construction disbursement requirements and their

EXHIBIT C – DHCD RESPONSE TO DRAFT REPORT

Letter to OIG
Page 2

appropriate controls are already in place. Compliance with the basic funding requirements is currently being implemented by the project managers and the Office of Program Monitoring through the use of the compliance checklist as projects move through the underwriting and funding activities to the loan/grant closing stage. To ensure compliance with construction requirements, DFD staff perform construction site visits and prepare site visit reports for each requested disbursement. Also, prior to the disbursement of requested payments, the Office of Program Monitoring performs a review and may require the submission of additional documentation, e.g. additional certified payrolls for Davis-Bacon compliance.

Further, for each construction project ten (10) percent retainage is withheld to ensure that any outstanding items are completed before all funds are disbursed. Compliance with all construction and regulatory requirements is achieved when DHCD releases its retainage on a project.

Regarding the long-term monitoring process, DFD commenced the development of these processes and procedures prior to the issuance of the DC OIG draft audit report. Specifically, procedures for the long-term monitoring of Low Income Housing Tax Credit (LIHTC) and HOME Investment Partnership Funds (HOME) projects had been drafted and were being implemented during the DC OIG audit period. DFD has also hired additional staff to implement the long-term monitoring of projects receiving these resources. The operational procedures developed for the LIHTC and HOME programs are essentially the same procedures and processes that DFD will implement for all appropriate DFD projects. Final consideration, acceptance and implementation of the proposed monitoring processes and procedures should be completed by August 2004.

The DC OIG recommended that DHCD develop and implement a standard project tracking system that will capture and document activities and accomplishments to measure a project's progress against goals and milestones.

DHCD currently uses the Housing and Development Software (HDS) for tracking project information; however, the available module is primarily a fund management system used to assist in the input of data for the U.S. Department of Housing and Urban Development (HUD) Integrated Disbursement and Information System (IDIS). While the software has the capability to record and track project activities, these modules have not been fully integrated into the current system configuration or the workflow of DFD staff. DHCD has modified the contract of the software contractor to address these concerns and improve the functionality of the HDS system. DHCD initiated the HDS discussion with the contractor during the DC OIG audit period, and held its kick-off meeting with the contractor on February 2, 2004 to finalize the work plan for the revisions and updates to HDS. DFD will be the first division to identify its needs and requirements and to implement the improvements to the HDS system. It is the goal of DHCD and DFD

EXHIBIT C – DHCD RESPONSE TO DRAFT REPORT

Letter to OIG
Page 3

that the HDS system becomes a complete data base and portfolio management system that can be utilized to track any DHCD project whether or not it is federally funded.

The DC OIG recommended that DHCD obtain and provide complete documentation to the DC OIG for the 1225 Fairmont Street, NW project.

DHCD disagrees with the DC OIG finding and recommendations regarding the 1225 Fairmont Street, NW project. DHCD expended federal funds on this project for the sole purpose of assisting a community development corporation (CDC) with the acquisition of the foreclosed HUD Section 236, nine-unit building. The CDC used the funds to purchase the building and to perform the emergency maintenance work required by HUD before it would allow the purchase to be completed. Therefore, DHCD officials were not in error in their assertions that the project had been completed, because the activity for which the funds were expended – i.e. acquisition – was in fact completed when the CDC went to closing on the building.

DHCD's acquisition loan was not contingent upon nor specifically related to the subsequent rehabilitation of the building, except for the emergency repairs required by HUD for the acquisition. The CDC intends to finance the rehabilitation of the building through other funding sources. At the request of the CDC, DHCD has deferred repayment of the loan pending the CDC's completion of its financing activities for rehabilitation.

DHCD refutes the OIG report statement that the project file was incomplete because it did not contain an appraisal. DFD informed the DC OIG auditors that an appraisal was not required for the purchase of this site because it was a HUD foreclosure and the sale price is set by HUD. However, DFD did obtain and provide the appraisal to the DC OIG through the Deputy Director for the Office of Program Monitoring (See Enclosure 2 for fax transmittal to the DC OIG on October 22, 2003).

The DC OIG recommended that DHCD initiate de-obligation actions for the \$240,000 in CDBG funds that remain encumbered for the terminated Jammin Java Project.

DHCD agrees with this recommendation and is currently working with the Office of the Chief Financial Officer to de-obligate the remaining \$240,000 on the purchase order in the District's System of Accounting and Reporting (SOAR). This process should be completed by February 27, 2004.

EXHIBIT C – DHCD RESPONSE TO DRAFT REPORT

Letter to OIG
Page 4

The DC OIG recommended that DHCD establish procedures and controls to ensure that DHCD project managers retain documents in project files that are required to monitor and evaluate a project's performance.

DHCD contends that it does maintain and have in place procedures and controls for the monitoring of project performance. As indicated earlier, DHCD has procedures and controls that require project managers to retain documents in project files which facilitate the three types of monitoring. DHCD project managers are required to maintain the site visit reports which result from the construction disbursement monitoring and documents the evaluation of project performance.

The current monitoring procedures will be augmented with the use of the improvements that will be made to the HDS system by recording and tracking project progress.

The DC OIG recommended that DHCD establish procedures and controls to ensure that DHCD project managers properly complete the document checklist form and update information in the project file to include all required closeout documents.

DHCD disagrees with the DC OIG's statement that project files were not organized, incomplete and needed to be updated. The DC OIG formed this conclusion based on a review of the project manager's files which only contain documents relating to the review and underwriting phase of the development project.

Projects in DFD are processed and filed in three distinct stages: 1) project review and underwriting, 2) construction and disbursement, and 3) operational (long-term monitoring). The files maintained by the project managers basically contain documents for the first stage of the DFD process. Construction/disbursement and operational documents are maintained in the files of those program staff responsible for those aspects of the project's development process.

DHCD does recognize the concerns expressed by the DC OIG, and will implement policies and procedures to ensure that project files are complete, up-to-date, and include the required close-out documents. These procedures will include, but will not be limited to the following:

- Establishment of a Table of Content/Checklist system, including "completed" labeling.
- Designation of support staff for maintenance of a centralized file system, including the regular review of file contents to ensure file accuracy, and
- Requirement for project managers to maintain at their workstations, only that section of the file for the stage in which the project is proceeding – project review and underwriting, construction/disbursement and operational. As each stage of the development process is completed, the file which corresponds to that

EXHIBIT C – DHCD RESPONSE TO DRAFT REPORT

Letter to OIG

Page 5

completed stage will be transferred to the central file after it has been reviewed by support staff to ensure that all documents required by the Table of Contents/Checklist system are contained in the project file.

Thank you for the opportunity to provide comments to this draft report. Please feel free to contact Wilma G. Matthias, Deputy Director for the Office of Program Monitoring at (202) 442- [redacted] or me at (202) 442-7210, if there are any questions or concerns.

Sincerely,



Stanley Jackson
Director

Cc: Wilma G. Matthias

Enclosures